

Tennessee Housing Development Agency

**For the Year Ended
June 30, 1999**

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February 15, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Housing Development Agency
and
Mr. Ralph E. Massey, Jr., Acting Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
99/098

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 1999

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 1999

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Legislative History		1
Organization		2
AUDIT SCOPE		3
OBJECTIVES OF THE AUDIT		3
PRIOR AUDIT FINDINGS		5
OBSERVATIONS AND COMMENTS		5
RESULTS OF THE AUDIT		6
Audit Conclusions		6
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		7
FINANCIAL SECTION		
Independent Auditor's Report		9
Financial Statements		
Balance Sheets	A	11
Statements of Revenues, Expenses, and Changes in Retained Earnings	B	12
Statements of Cash Flows	C	13
Notes to the Financial Statements		14
Required Supplementary Information		30

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Year 2000 Disclosures		30
Other Supplementary Information		32
Supplementary Balance Sheets		32
Supplementary Statements of Revenues, Expenses, and Changes in Retained Earnings		33
Supplementary Statements of Cash Flows		34
Supplementary Balance Sheet–Operating Group		35
Supplementary Balance Sheet–Mortgage Finance Program		36

Tennessee Housing Development Agency For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Housing Development Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

LEGISLATIVE HISTORY

The Tennessee Housing Development Agency is a corporate governmental agency of the State of Tennessee and was established in 1973 under the provisions of Title 13, Chapter 23, *Tennessee Code Annotated*. The agency was created to increase available funds for the financing of residential housing for low- and moderate-income households. It is authorized to issue bonds and notes to provide such financing. These bonds and notes are payable solely from the agency’s revenues and assets and are not general obligations of the state or of any of the state’s political subdivisions.

The agency’s affairs are directed by a 19-member board of directors and are administered by an executive director. Directors of the agency serving *ex officio* are the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Secretary of State, and a staff assistant to the Governor. Of the remaining 14 members, 12 are appointed by the Governor. The Speaker of the House of Representatives and the Speaker of the Senate each appoint one member. Of the 12 members appointed by the Governor, nine are required to be representatives of the housing, home-building, real estate, and mortgage-lending professions. The Governor appoints one additional member from each of the three grand divisions of the state; these three are representatives of the public at large.

ORGANIZATION

The agency comprises 11 divisions, each of which is managed by a division director. The executive; research, planning, and technical services; multi-family and special programs; and internal audit divisions report directly to the executive director. The production divisions—community programs, mortgage administration, homeownership mortgage, and housing management—report to the deputy executive director. The financial and administrative support divisions—finance, management information systems, and fiscal administration—report to the chief financial officer.

Executive Division - This division is responsible for program development, legal affairs, public relations, and personnel.

Research, Planning, and Technical Services Division - This division provides technical assistance to agencies, firms, and individuals; works with other agencies to coordinate community development activities; and conducts and oversees research on housing issues.

Multi-family and Special Programs Division - This division administers the Low Income Housing Tax Credit Program for developers of rental properties and allocates multi-family bond authority to local issuers for a specific development.

Internal Audit Division - This division performs internal audits of all agency programs, grants, and servicing institutions, and is responsible for long-term compliance of the HOUSE, HOME, and Tax Credit Program.

Community Programs Division - This division is responsible for the federal HOME Investment Partnerships Program and the state Housing Opportunities Using State Encouragement (HOUSE) program, which provide funds for locally designed housing efforts.

Mortgage Administration Division - This division oversees the collection of loans for the agency. The division provides full in-house servicing of multi-family loans. Single-family loans are serviced by approved servicing agents under the direction of the mortgage administration division.

Homeownership Mortgage Division - This division provides the link between funds available for single-family home loans and the individual prospective homeowners through the development of a statewide network of participating lenders and the underwriting of loans for qualified applicants.

Housing Management Division - This division administers the Section 8 Housing Assistance Program. The division's functions include administering housing assistance payment contracts, and monitoring and auditing housing developments and subcontractors.

Finance Division - This division is responsible for cash management of the agency. This division's major functions are debt management and investment of funds.

Management Information Systems Division - This division is responsible for developing, implementing, and maintaining the agency's computer systems.

Fiscal Administration Division - This division is responsible for bond, state, and federal accounting; financial reporting; and general administrative areas such as purchasing and fiscal budget planning.

The agency presents a financing proposal each fiscal year for the State Funding Board's approval. The bond finance committee of the Tennessee Housing Development Agency's board of directors sells bonds and notes on behalf of the agency.

An organization chart for the Tennessee Housing Development Agency is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

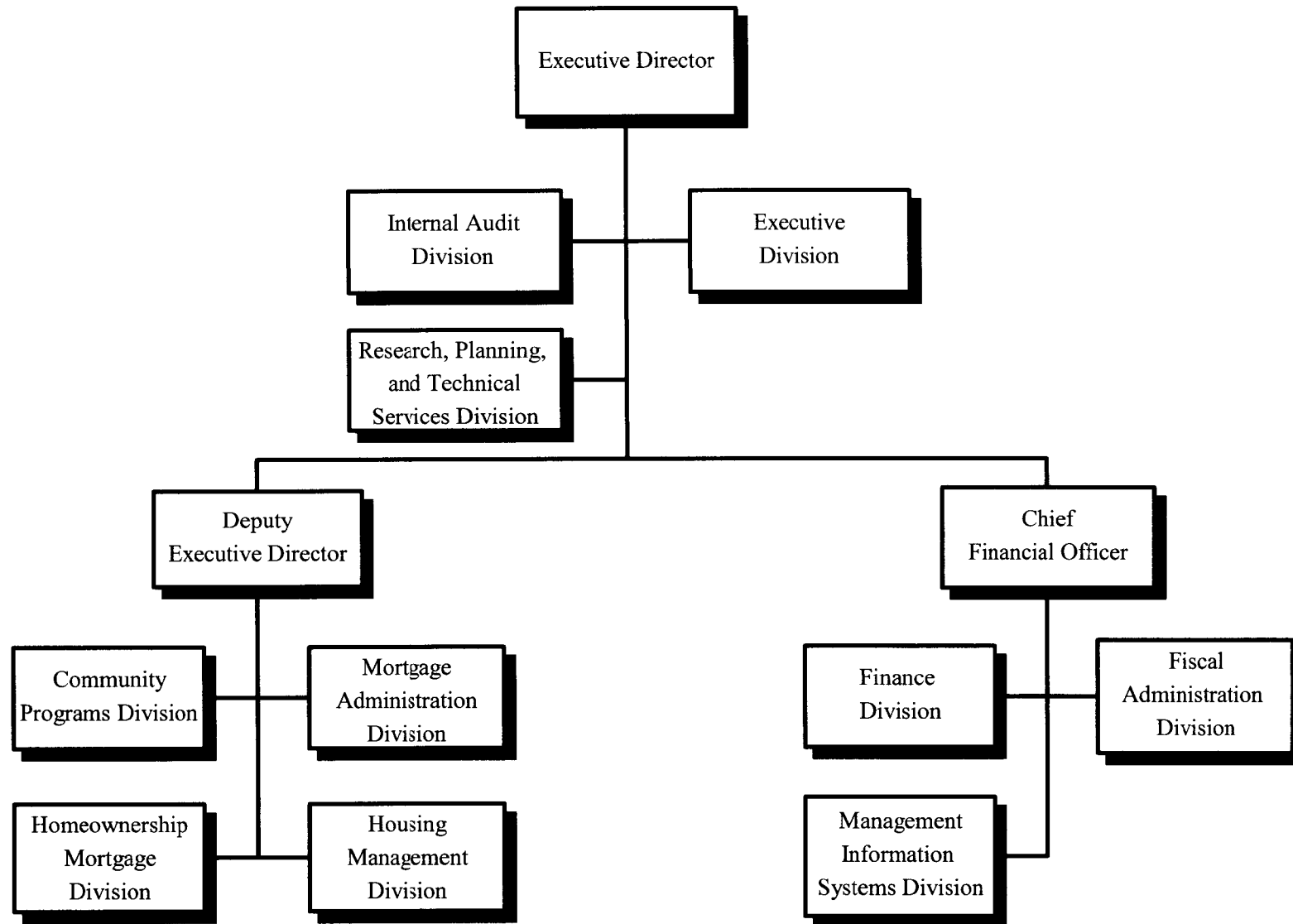
The audit covered allotment code 316.20.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Tennessee Housing Development Agency Organizational Chart



Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Tennessee Housing Development Agency filed its compliance report and implementation plan on June 30, 1999.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of the Department of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the agency's financial statements.

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

November 9, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1999, and have issued our report thereon dated November 9, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note other less significant instances of noncompliance, which we have reported to the agency's management in a separate letter.

The Honorable John G. Morgan
November 9, 1999
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms

Independent Auditor's Report

November 9, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated December 9, 1998, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support the agency's disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*. The agency's year 2000 disclosures are now reported as required supplementary information as permitted by GASB Technical Bulletin 99-1, *Disclosures*

The Honorable John G. Morgan
November 9, 1999
Page Two

about Year 2000 Issues—an amendment of Technical Bulletin 98-1. Accordingly, our present opinion on the 1998 statements, as expressed herein, is different from our prior report on the 1998 financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 1999, and June 30, 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 Disclosures on page 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the agency is or will become year 2000 compliant, that the agency's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the agency does business are or will become year 2000 compliant.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The other supplementary information on pages 32 through 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 1999, on our consideration of the agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

TENNESSEE HOUSING DEVELOPMENT AGENCY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998
(Expressed in Thousands)

	1999	1998
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 260,892	\$ 211,573
Short-term investments (Note 2)	145,594	201,373
Receivables:		
Accounts	13,462	9,922
Interest	18,517	22,082
First mortgage loans	23,845	23,788
Total current assets	<u>462,310</u>	<u>468,738</u>
Other assets:		
Long-term investments (Note 2)	432,161	448,534
First mortgage loans receivable	1,212,048	1,179,438
Deferred charges	2,786	2,725
Other receivables	21	23
Total other assets	<u>1,647,016</u>	<u>1,630,720</u>
Fixed assets:		
Office furniture and fixtures	498	570
Less: accumulated depreciation	<u>(388)</u>	<u>(410)</u>
Total fixed assets	<u>110</u>	<u>160</u>
Total assets	<u>\$ 2,109,436</u>	<u>\$ 2,099,618</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Current liabilities:		
Warrants payable	\$ 1,225	\$ 1,136
Checks payable (Note 3)	8,399	2,022
Accounts payable and accruals	8,335	6,916
Due to primary government	37	-
Interest payable	42,883	45,874
Escrow deposits payable	17,077	16,457
Prepayments on mortgage loans	1,364	1,298
Notes payable (Note 4)	65,235	47,755
Deferred revenue	828	1,292
Bonds payable (Note 4)	199,859	240,915
Total current liabilities	<u>345,242</u>	<u>363,665</u>
Noncurrent liabilities:		
Bonds payable (Note 4)	1,449,684	1,436,570
Less: Unamortized bond discount	(9,444)	(9,803)
Unamortized bond refunding costs	<u>(5,241)</u>	<u>(4,727)</u>
Total noncurrent liabilities	<u>1,434,999</u>	<u>1,422,040</u>
Total liabilities	<u>1,780,241</u>	<u>1,785,705</u>
Equity:		
Contributed capital (Note 5)	<u>2,500</u>	<u>2,500</u>
Retained earnings:		
Reserved - HOUSE Program (Note 5)	36,457	28,813
Reserved - Mortgage Finance Program Bonds (Note 5)	34,320	33,399
Reserved - Homebuyers Revolving Loan Program (Note 5)	316	240
Unreserved (Note 7)	255,602	248,961
Total retained earnings	<u>326,695</u>	<u>311,413</u>
Total equity	<u>329,195</u>	<u>313,913</u>
Total liabilities and equity	<u>\$ 2,109,436</u>	<u>\$ 2,099,618</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998
(Expressed in Thousands)

	1999	1998
<u>OPERATING REVENUES</u>		
Mortgage interest income	\$ 89,306	\$ 95,211
Investment income		
Interest	34,264	47,356
Net increase (decrease) in the fair value of investments (Note 10)	(6,648)	19,927
Fees and other income	981	926
Total operating revenues	117,903	163,420
<u>OPERATING EXPENSES</u>		
Salaries and benefits	2,988	3,030
Contractual services	536	666
Materials and supplies	80	72
Rentals and insurance	227	298
Other administrative expenses	34	121
Other program expenses	633	411
Interest expense	99,919	106,005
Mortgage service fees	4,214	4,391
Issuance costs	208	343
Depreciation	74	66
Total operating expenses	108,913	115,403
Operating income	8,990	48,017
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Federal grants revenue	39,208	42,728
Interdepartmental tax revenue	18,585	16,277
Federal grants expenses	(39,208)	(42,728)
Local grants expenses	(11,598)	(7,615)
Total nonoperating revenues (expenses)	6,987	8,662
Income before transfer and extraordinary loss	15,977	56,679
Operating transfer to primary government	-	(43,000)
Income before extraordinary loss	15,977	13,679
Extraordinary loss on early retirement of debt (Note 4)	(695)	(119)
Net income	15,282	13,560
Retained earnings, July 1	311,413	279,736
Cumulative effect of a change in accounting principle (Note 10)	-	18,117
Retained earnings, July 1, as restated	311,413	297,853
Retained earnings, June 30	\$ 326,695	\$ 311,413

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998
(Expressed in Thousands)

	1999	1998
Cash flows from operating activities:		
Operating income	\$ 8,990	\$ 48,017
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	69	176
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,540)	(4,437)
(Increase) decrease in interest receivable	717	1,005
(Increase) decrease in first mortgage loans receivable	(32,667)	47,297
(Increase) decrease in due from federal government	-	108
(Increase) decrease in deferred charges	(109)	5
(Increase) decrease in other receivables	2	1
Increase (decrease) in warrants payable	89	(598)
Increase (decrease) in accounts payable	2,105	716
Increase (decrease) in due to primary government	(455)	(35)
Increase (decrease) in deferred revenue	206	492
Investment income included as operating revenue	(27,616)	(67,283)
Interest expense included as operating expense	99,919	106,005
Total adjustments	38,720	83,452
Net cash provided (used) by operating activities	47,710	131,469
Cash flows from non-capital financing activities:		
Operating grants received	39,208	42,728
Operating transfer to primary government	-	(43,000)
Taxes received	18,585	16,277
Negative cash balance implicitly financed	6,377	554
Proceeds from sale of bonds	313,407	304,547
Proceeds from issuance of notes	82,480	47,755
Operating grants paid	(50,806)	(50,343)
Cost of issuance paid	(416)	(549)
Principal payments	(414,634)	(371,850)
Interest paid	(95,184)	(108,491)
Net cash provided (used) by non-capital financing activities	(100,983)	(162,372)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(24)	(109)
Net cash used by capital and related financing activities	(24)	(109)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	731,992	1,096,294
Purchases of investments	(668,310)	(1,083,645)
Investment interest received	38,934	48,309
Net cash provided (used) by investing activities	102,616	60,958
Net increase in cash and cash equivalents	49,319	29,946
Cash and cash equivalents, July 1	211,573	181,627
Cash and cash equivalents, June 30	\$ 260,892	\$ 211,573
Noncash investing, capital, and financing activities:		
Disposition of fixed assets	\$ 96	\$ 39
Accretion of deep discount bonds	6,693	5,365
Total noncash investing, capital, and financing activities	\$ 6,789	\$ 5,404

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999, AND JUNE 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's 1974, 1981, and 1985 bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

d. Depreciation

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors.

e. Bond Issuance Costs, Discounts, Refunding Costs, and Interest Accretion

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the bonds outstanding method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.
2. Bond Discount and Refunding Costs: The agency amortizes bond discount using the bonds outstanding method over the life of the related bond issue. Bond refunding costs are amortized using the straight-line method. The bonds outstanding method approximates the effective interest method of amortization. Bonds payable are reported net of the applicable unamortized bond discount and unamortized bond refunding costs.
3. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.
4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

f. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

g. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Effective July 1, 1997, investments are stated at fair value. Prior to this date, investments were stated at cost or amortized cost.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

h. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

i. Mortgages

Mortgages are carried at their original amount less principal collected.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1999, the carrying amount of the agency's deposits was \$22,218,445, and the bank balance was \$1,381,669. At June 30, 1998, the carrying amount of the agency's deposits was \$17,949,895, and the bank balance was \$1,416,591. All bank balances were insured. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$53,930,380 on June 30, 1999, and \$33,844,130 on June 30, 1998.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. Investments are categorized as follows:

June 30, 1999				
	Category			
	<u>1</u>	<u>2</u>	<u>3</u>	Fair Value
Cash equivalents and short-term investments				
Repurchase agreements	\$ 156,275,000			\$ 156,275,000
U S government securities	173,962,521			173,962,521
State and local government securities	<u>100,003</u>			<u>100,003</u>
Total cash equivalents and short-term investments	\$ 330,337,524			\$ 330,337,524

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

June 30, 1999 (cont.)				
	Category			Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Long-term investments				
U S government securities	\$ 431,138,123			\$ 431,138,123
State & local government securities	1,022,299			1,022,299
Total long-term investments	<u>\$ 432,160,422</u>			<u>\$ 432,160,422</u>
Total	<u>\$ 762,497,946</u>			<u>\$ 762,497,946</u>

June 30, 1998				
	Category			Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash equivalents and short-term investments				
Repurchase agreements	\$131,658,000			\$131,658,000
U S government securities	229,494,398			229,494,398
Total cash equivalents and short-term investments	<u>\$361,152,398</u>			<u>\$361,152,398</u>
Long-term investments				
U S government securities	\$447,722,287			\$447,722,287
State & local government securities	811,919			811,919
Total long-term investments	<u>\$448,534,206</u>			<u>\$448,534,206</u>
Total	<u>\$809,686,604</u>			<u>\$809,686,604</u>

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. REVENUE BONDS AND NOTES PAYABLE

a. Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 1999, and June 30, 1998.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-99	06-30-98
<u>MORTGAGE FINANCE PROGRAM BONDS</u>								
1993A	1/1/99-7/1/2008	136,420	4.70 to 5.70	7/1/2010	15,365	5.80		
				7/1/2013	25,540	5.85		
				7/1/2018	28,815	5.90		
				7/1/2028	59,770	5.95	\$260,995	\$265,910
1994A	1/1/96-7/1/2009	14,760	4.4 to 6.35	1/1/2019	20,835	6.40		
				7/1/2025	24,405	6.90	47,085	52,750
1994B	1/1/96-7/1/2011	30,095	4.50 to 6.40	7/1/2014	10,015	6.45		
				7/1/2019	21,810	6.55		
				7/1/2025	38,080	6.60	83,305	90,270
1995A	1/1/97-7/1/2008	14,270	5.45 to 6.55	7/1/2010	3,735	6.65		
				7/1/2014	9,350	6.85		
				7/1/2020	20,485	7.05		
				7/1/2026	32,160	7.125	69,315	73,540
1995B				7/1/2015	3,135	6.15		
				7/1/2018	12,155	6.20	15,290	15,290
1995C	1/1/97-7/1/2009	22,990	4.8 to 5.95	7/1/2015	15,300	6.10		
				7/1/2021	14,685	6.45		
				7/1/2026	31,735	6.55	69,465	77,335
TOTAL MORTGAGE FINANCE PROGRAM BONDS		<u>\$218,535</u>			<u>\$387,375</u>		<u>\$545,455</u>	<u>\$575,095</u>
<u>HOMEOWNERSHIP PROGRAM BONDS</u>								
Issue G	7/1/89-7/1/2002	16,345	5.25 to 7.5	7/1/2006	8,500	7.65	\$ 4,470	\$ 7,440
Issue H				7/1/2015	33,000	7.825		
				7/1/2019	27,155	8.375	-0-	7,000
Issue J	7/1/92-7/1/2003	6,010	6.25 to 7.40	7/1/2008	4,555	7.625		
				7/1/2017	14,435	7.75	7,675	8,175
Issue K	7/1/92-7/1/2003	18,960	6.4 to 7.7	7/1/2021	52,755	8.125		
				7/1/2004 to 7/1/2008	3,060	7.90 to 8.10	12,890	14,470
						Interest accretion	3,996	3,464
Issue M				7/1/2017	28,740	7.125	25,585	25,585
Issue N	7/1/91-7/1/2008	29,000	6.7 to 7.5	7/1/2011	8,725	7.60		
				7/1/2020	19,275	7.65	29,260	47,605
Issue O	7/1/91-7/1/2005	21,580	6.4 to 7.5	7/1/2009	10,675	7.70		
				7/1/2020	51,745	7.75	12,760	61,555
Issue P	7/1/97-7/1/2010	17,540	6.85 to 7.50	7/1/2016	22,460	7.70	14,628	30,013
						Interest accretion	11,031	9,443
Issue S	7/1/92-7/1/2005	16,210	6.2 to 7.4	7/1/2010	10,985	7.50		
				7/1/2022	51,405	7.625	68,705	69,720
Issue T	7/1/92-7/1/2002	9,560	5 to 6.75	7/1/2011	15,875	7.30		
				7/1/2023	46,940	7.375	67,140	68,045
Issue U	7/1/00-7/1/2006	10,570	6.40 to 6.95	7/1/2011	11,460	7.35		
				7/1/2016	15,660	7.40	27,235	27,235
Issue V	7/1/92-7/1/99	7,725	5.30 to 6.55	7/1/2022	29,585	7.65	1,020	24,220
Issue WR	7/1/94-7/1/2007	15,020	4.25 to 6.45	7/1/2012	9,725	6.70		
				7/1/2017	25,155	6.80	43,300	44,210
Issue XR				7/1/2022	8,555	6.875	1,530	4,275
Issue Y1	1/1/95-7/1/2007	4,860	3.50 to 5.60	7/1/2013	3,660	5.80		
				7/1/2017	3,245	5.90	10,100	10,425
Issue Z1	1/1/95-7/1/2007	5,505	3.75 to 5.85	7/1/2013	3,535	6.00		
				7/1/2023	16,250	5.375		
				7/1/2024	12,945	6.10	25,860	29,625
Issue Y2	1/1/04-7/1/2007	1,520	5.00 to 5.20	7/1/2013	2,965	5.45		
				7/1/2017	2,575	5.55	6,890	6,890

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-99	06-30-98
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
Issue Z2	1/1/95-7/1/2003	3,790	3.5 to 5.0	7/1/2023	12,000	5.00		
				7/1/2024	7,150	5.75	15,465	17,775
1994-1				1/1/98	9,500	5.20		
				1/1/1999	24,000	5.50	-0-	24,000
1995-1	1/1/97-7/1/2010	16,965	4.35 to 6.05	7/1/2016	13,060	6.35		
				7/1/2021	15,635	6.40		
				1/1/2026	19,340	6.48	27,735	28,495
1996-1A	7/1/97	290	4.00	7/1/98-7/1/2012	12,225	4.10 to 5.60		
				7/1/2015	4,210	5.70		
				7/1/2017	3,255	5.75		
				7/1/2022	10,090	5.80		
				1/1/2026	9,125	5.85	37,545	38,445
1996-1B	7/1/2010-1/1/2011	805	5.35 to 5.45				805	805
1996-2A	1/1/98-7/1/2014	20,310	4.40 to 6.15	7/1/2016	4,675	6.00		
				7/1/2022	18,360	6.35		
				1/1/2027	18,835	6.375	60,065	61,545
1996-2B	7/1/2009-1/1/2011	2,820	5.70 to 5.80				2,820	2,820
1996-3	7/1/99-7/1/2012	16,490	4.30 to 5.65	7/1/2017	10,670	5.85		
				7/1/2023	18,540	5.85		
				1/1/2028	19,300	6.00	42,750	65,000
1996-4 A	7/1/98-7/1/2011	13,535	4.35 to 6.00	7/1/2016	8,975	6.05		
				7/1/2022	15,485	6.375		
				1/1/2027	16,400	6.45	53,455	54,315
1996-4 B	1/1/2011	605	5.85				605	605
1996-5A	7/1/99-7/1/2012	8,180	4.00 to 5.35	7/1/2017	4,825	5.50		
				7/1/2023	7,935	5.55		
				7/1/2028	9,060	5.75	30,000	30,000
1996-5B				8/20/98	30,000	3.85	-0-	30,000
1996-5B	7/1/99- 7/1/2012	8,880	3.85 to 5.05	7/1/2017	4,835	5.00		
				7/1/2023	7,700	5.375		
				7/1/2028	8,585	5.40	30,000	-0-
1997-1	7/1/99-7/1/2012	16,385	4.00 to 5.10	7/1/2017	9,695	5.00		
				7/1/2023	15,845	5.375		
				1/1/2028	15,960	5.40	57,885	57,885
1997-2				3/4/99	50,000	3.70	-0-	50,000
1997-2	7/1/2000- 7/1/2013	15,040	3.20 to 4.75	01/01/2018	7,495	5.10		
				01/01/2024	13,040	5.15		
				01/01/2029	14,425	5.20	50,000	-0-
1997-3A	1/1/98-7/1/2008	40,911	4.00 to 5.35	7/1/2012	23,174	5.125		
				7/1/2017	1,133	5.875		
				7/1/2017	2,746	5.875	58,413	67,865
					Interest accretion		5,370	2,553
1997-3B				7/1/2016	20,044	5.725	20,044	20,044
					Interest accretion		2,056	843
1998-1				6/17/99	50,000	3.75	-0-	50,000
1998-1	7/1/2001-7/1/2014	14,800	3.95 to 5.20	1/1/2019	7,500	5.25		
				1/1/2024	10,655	5.30		
				1/1/2030	17,045	5.40	50,000	-0-
1998-2	7/1/2000- 7/1/2012	7,850	4.00 to 5.05	7/1/2017	4,620	5.10		
				7/1/2023	7,385	5.35		
				7/1/2029	10,145	5.375	30,000	-0-
1998-3A	7/1/2000- 7/1/2001	700	3.70 to 3.90	1/1/2024	11,135	5.25		
				1/1/2030	13,365	5.30	25,200	-0-
1998-3B	7/1/2001- 7/1/2012	9,475	3.80 to 4.80	1/1/2017	5,325	5.00	14,800	-0-
1998-3C				11/18/99	40,000	3.10	40,000	-0-

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

BONDS ISSUED						BONDS OUTSTANDING		
(Thousands)						(Thousands)		
SERIAL BONDS			TERM BONDS					
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-99	06-30-98
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
1999-1A	7/1/2001 – 7/1/2014	11,090	3.95 to 5.20	1/1/2019	5,615	5.25		
				1/1/2024	7,980	5.30		
				1/1/2031	15,315	5.40	40,000	-0-
1999-1B				6/15/2000	35,000	3.25	35,000	-0-
TOTAL HOMEOWNERSHIP PROGRAM BONDS								
TOTAL ALL ISSUES								

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 1999 are as follows (expressed in thousands):

For the Year(s) Ending	Principal	Interest	Total Requirements
<u>June 30</u>			
2000	\$ 112,245	\$ 88,691	\$ 200,936
2001	37,335	86,963	124,298
2002	40,790	85,128	125,918
2003	43,763	83,087	126,850
2004	44,910	80,901	125,811
2005 - 2031	<u>1,338,604</u>	<u>1,064,985</u>	<u>2,403,589</u>
Total	<u>\$1,617,647</u>	<u>\$1,489,755</u>	<u>\$ 3,107,402</u>

The debt principal in the preceding table is \$22.4 million less than that presented in the accompanying financial statements. This amount, representing the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds, has been reported as bond principal in the financial statements; it has been reported here as interest in those years (2000-2017) in which the bonds mature.

c. Redemption of Bonds

During the year ended June 30, 1999, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$4,220,000 and in the Homeownership Program Bonds in the amount of \$75,696,673. The respective carrying values of these bonds were \$4,181,124 and \$75,036,083. This resulted in a loss to the Mortgage Finance Program of \$38,876 and the Homeownership Program of \$660,590.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

On July 1, 1998, the agency drew down \$17,245,000 of the convertible notes, 1997 CN-1, to refund certain bonds previously issued in the Homeownership Program. The carrying amount of these bonds was \$17,081,062. The refunding resulted in a difference of \$163,938 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. Also on this date, the agency used \$40,930,000 of the proceeds from the Homeownership Program Bond Issue 1998-1 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$40,602,716. The refunding resulted in a difference of \$327,284 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026.

On August 1, 1998, the agency issued \$30,000,000 in Homeownership Program Bonds, Issue 1998-2, of which \$27,150,000 was used to refund certain bonds previously issued in the Homeownership Program on October 30, 1998. The carrying amount of those bonds was \$26,897,268. The refunding resulted in a difference of \$252,732 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2027. The agency completed the refunding to reduce its total debt service over the next 31 years by \$3,894,097 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$4,097,864.

On December 2, 1998, the agency issued \$80,000,000 in Homeownership Program Bonds, Issues 1998-3A, B, and C. The proceeds of these bonds were used to refund previously issued bonds and notes as follows: (1) \$46,265,000 was used to refund the first draw of the Convertible Notes, 1997 CN-1, which refunded certain bonds previously issued in the Mortgage Finance and Homeownership Programs on January 1, 1998. The carrying amount of those bonds was \$45,863,992. (2) \$10,240,000 was used to refund the second draw of 1997 CN-1, which refunded certain bonds previously issued in the Homeownership Program on July 1, 1998. The carrying amount of those bonds was \$10,142,654. (3) \$6,380,000 was used to refund certain bonds previously issued in the Mortgage Finance and Homeownership Programs on January 1, 1999. The carrying amount of those bonds was \$6,340,543. The refunding resulted in a difference of \$39,457 between the reacquisition price and the net carrying amount of the old debt. The difference between the reacquisition price and the net carrying amount of the bonds refunded in (1) and (2) above and the disposition thereof was documented at the time the bonds were originally refunded. The difference between the reacquisition price and the net carrying amount of the bonds refunded in (3) above, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. A portion of this refunding was accomplished using proceeds of short-term debt, which will in turn be refunded or remarketed upon maturity; therefore, the full economic impact of the refunding was not determined as of June 30, 1999.

On March 4, 1999, the agency remarketed \$50,000,000 in Homeownership Program Bonds, Issue 1997-2, of which \$29,725,000 was used to refund certain bonds previously issued in the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 30 years by \$12,161,239 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$7,484,437.

On April 13, 1999, the agency issued \$200,000,000 of drawdown notes, 1999CN-1, of which \$65,235,000 was drawn down to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on July 1, 1999 (this amount consists of \$63,004,030.15 early redemption and \$2,230,969.85 current maturities). This refunding will be accomplished using proceeds of short-term debt, which will in turn be refunded upon maturity; therefore the full economic impact of the refunding was not determined as of June 30, 1999.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

On June 17, 1999, the agency remarketed \$50,000,000 in Homeownership Program Bonds, Issue 1998-1, of which \$40,930,000 was used to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 31 years by \$4,800,345 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$7,790,649.

On June 17, 1999, the agency issued \$40,000,000 and \$35,000,000 in Homeownership Program Bonds, Issues 1999-1A and 1999-1B, respectively. \$30,570,000 of the 1999-1A proceeds will be used to refund certain bonds and notes previously issued in the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. \$29,635,000 of the 1999-1B proceeds will be used to refund certain bonds and notes previously issued in the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program.

During the year ended June 30, 1998, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$485,000 and in the Homeownership Program Bonds in the amount of \$14,225,000. The respective carrying values of these bonds were \$480,283 and \$14,110,078. This resulted in a loss to the Mortgage Finance Program of \$4,717 and the Homeownership Program of \$114,922.

On May 29, 1997, the agency issued \$50,000,000 in Homeownership Program Bonds, Issue 1997-2, \$29,725,000 of which was used to refund certain bonds previously issued in the Mortgage Finance Program and Homeownership Program on July 1, 1997 (this amount consists of \$27,240,000 early redemption and \$2,485,000 current maturities). The carrying amount of these bonds was \$29,515,777. The refunding resulted in a difference of \$209,223 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2027. This refunding was accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

On October 9, 1997, the agency issued \$88,008,335 in Homeownership Program Bonds, Issue 1997-3, which was used to refund certain bonds previously issued in the Homeownership Program on December 1, 1997. The carrying amount of those bonds was \$86,887,469. A call premium of \$1,880,950 was paid on the redemption of these bonds. The refunding resulted in a difference of \$3,003,481 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018. The agency completed the refunding to reduce its total debt service over the next 18 years by \$2,377,996 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$17,539,742.

On December 1, 1997, the agency issued \$65,000,000 of drawdown notes, 1997CN-1, of which \$47,755,000 was drawn down to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on January 1, 1998 (this amount consists of \$45,535,000 early redemption and \$2,220,000 current maturities). The carrying amount of these bonds was \$47,341,077. The refunding resulted in a difference of \$413,923 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. The refunding was accomplished using proceeds of short-term debt, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

On February 19, 1998, the agency remarketed \$57,885,000 in Homeownership Program Bonds, Issue 1997-1, which was used to refund certain bonds previously issued in the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 30 years by \$24,769,152 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$19,498,872.

On June 4, 1998, the agency issued \$50,000,000 in Homeownership Program Bonds, Issue 1998-1, of which \$40,930,000 was used for refunding certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on July 1, 1998 (this amount consists of \$37,395,000 early redemption and \$3,535,000 current maturities). This refunding will be accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 1999						
Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/98	94A	\$ 1,855,000	\$ 1,845,291		(\$ 9,709)	Current Refunding
07/01/98	94B	2,555,000	2,534,836		(20,164)	Current Refunding
07/01/98	95A	3,330,000	3,296,550		(33,450)	Current Refunding
07/01/98	95 C	2,305,000	2,283,155		(21,845)	Current Refunding
07/01/98	95C	110,000	108,958	(\$ 1,042)		Prepayments
01/01/99	94A	3,000,000	2,984,740		(15,260)	Current Refunding
01/01/99	94B	3,025,000	3,001,839		(23,161)	Current Refunding
01/01/99	95C	4,110,000	4,072,166	(37,834)		Prepayments
	Sub-Total-	\$ 20,290,000	\$ 20,127,535	(\$ 38,876)	(\$ 123,589)	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/98	86G	\$ 355,000	\$ 351,820		(\$ 3,180)	Current Refunding
07/01/98	86H	1,300,000	1,288,354		(11,646)	Current Refunding
07/01/98	89O	31,265,000	30,987,758		(277,242)	Current Refunding
07/01/98	89O	4,090,000	4,053,732	(\$36,268)		Prepayments
07/01/98	91V	9,600,000	9,503,854		(96,146)	Current Refunding
07/01/98	91V	325,000	321,745	(3,255)		Prepayments
07/01/98	91XR	685,000	677,417	(7,583)		Prepayments
07/01/98	92Z1	1,360,000	1,348,296		(11,704)	Current Refunding
07/01/98	92Z2	715,000	708,864		(6,136)	Current Refunding
10/30/98	89O	4,900,000	4,858,528		(41,472)	Current Refunding
10/30/98	96-3	22,250,000	22,038,740		(211,260)	Current Refunding
10/30/98	97-3	3,737,396	3,708,316	(29,080)		Prepayments
01/01/99	86G	1,555,000	1,541,918	(13,082)		Prepayments
01/01/99	86H	5,700,000	5,652,045	(47,955)		Prepayments
01/01/99	89N	645,000	637,638	(7,362)		Prepayments
01/01/99	89O	915,000	907,476	(7,524)		Prepayments
01/01/99	90P	2,960,000	2,941,746	(18,254)		Prepayments
01/01/99	91V	1,130,000	1,119,053	(10,947)		Prepayments
01/01/99	91XR	2,060,000	2,038,026	(21,974)		Prepayments
01/01/99	92Z1	1,910,000	1,893,876	(16,124)		Prepayments
01/01/99	92Z2	1,065,000	1,056,019	(8,981)		Prepayments
01/01/99	95-1	355,000	353,964		(1,036)	Current Refunding
01/01/99	96-1A	295,000	293,007	(1,993)		Prepayments
01/01/99	96-2A	620,000	615,182	(4,818)		Prepayments
01/01/99	96-4A	130,000	128,685	(1,315)		Prepayments
01/01/99	97-3A	4,309,277	4,275,986	(33,291)		Prepayments
06/01/99	89N	16,360,000	16,179,032	(180,968)		Prepayments
06/01/99	89O	6,255,000	6,207,443	(47,557)		Prepayments
06/01/99	90P	9,755,000	9,697,730	(57,270)		Prepayments

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

Year Ended June 30, 1999 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)						
06/01/99	91V	11,195,000	11,090,011	(104,989)		Prepayments
	Sub-Total	\$147,796,673	\$146,476,261	(\$660,590)	(\$659,822)	
	Total	\$168,086,673	\$166,603,796	(\$699,466)	(\$783,411)	

Year Ended June 30, 1998

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/97	94A	\$1,010,000	\$1,004,492			(\$ 5,508)	Current Refunding
07/01/97	94B	4,000,000	3,967,053			(32,947)	Current Refunding
07/01/97	95A	2,000,000	1,979,053			(20,947)	Current Refunding
07/01/97	95C	2,295,000	2,272,333			(22,667)	Current Refunding
07/01/97	95C	115,000	113,864		(\$ 1,136)		Prepayment
01/01/98	94A	2,590,000	2,576,163			(13,837)	Current Refunding
01/01/98	94B	3,160,000	3,134,516			(25,484)	Current Refunding
01/01/98	95A	3,215,000	3,182,014			(32,986)	Current Refunding
01/01/98	95C	2,690,000	2,663,968			(26,032)	Current Refunding
01/01/98	95C	370,000	366,419		(\$3,581)		Prepayments
	Sub-Total	\$21,445,000	\$21,259,875	\$-0-	(\$4,717)	(\$180,408)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/97	86F	\$ 840,000	\$ 832,048			(\$ 7,952)	Current Refunding
07/01/97	86G	370,000	366,554			(3,446)	Current Refunding
07/01/97	86H	1,000,000	990,686			(9,314)	Current Refunding
07/01/97	87I	930,000	921,961			(8,039)	Current Refunding
07/01/97	90Q	12,965,000	12,880,691			(84,309)	Current Refunding
07/01/97	90Q	645,000	640,806		(\$4,194)		Prepayments
07/01/97	91XR	330,000	326,155		(3,845)		Prepayments
07/01/97	92Z1	635,000	629,322			(5,678)	Current Refunding
07/01/97	92Z2	420,000	416,261			(3,739)	Current Refunding
07/01/97	95-1	330,000	328,975			(1,025)	Current Refunding
07/01/97	96-1	165,000	163,814			(1,186)	Current Refunding
07/01/97	96-2	220,000	218,183			(1,817)	Current Refunding
07/01/97	96-4	60,000	59,351			(649)	Current Refunding
12/01/97	86C	20,045,000	19,705,956	\$ 400,900		(739,944)	Current Refunding
12/01/97	86D	43,725,000	43,162,422	1,311,750		(1,874,328)	Current Refunding
12/01/97	86F	24,240,000	24,019,091	168,300		(389,209)	Current Refunding
12/01/97	90Q	6,000,000	5,962,232		(37,768)		Prepayments
01/01/98	86G	365,000	361,773			(3,227)	Current Refunding
01/01/98	86H	1,300,000	1,288,505			(11,495)	Current Refunding
01/01/98	88J	14,435,000	14,290,846			(144,154)	Current Refunding
01/01/98	89N	1,035,000	1,022,542		(12,458)		Prepayments
01/01/98	89O	14,990,000	14,855,086			(134,914)	Current Refunding
01/01/98	90Q	1,050,000	1,043,441			(6,559)	Current Refunding
01/01/98	90Q	2,240,000	2,226,008		(13,992)		Prepayments
01/01/98	91V	1,890,000	1,870,803		(19,197)		Prepayments
01/01/98	91XR	2,065,000	2,041,743		(23,257)		Prepayments
01/01/98	92Z1	895,000	887,148			(7,852)	Current Refunding
01/01/98	92Z2	845,000	837,617			(7,383)	Current Refunding
01/01/98	96-4	20,000	19,789		(211)		Prepayments
	Sub-Total	\$154,050,000	\$152,369,809	\$1,880,950	(\$114,922)	(\$3,446,219)	
	Total	\$175,495,000	\$173,629,684	\$1,880,950	(\$119,639)	(\$3,626,627)	

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

d. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of Agency drawdown notes with a maximum aggregate principal amount of \$65,000,000. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$200,000,000.

The Series 1999CN-1 Notes (the "Notes"), dated April 13, 1999 are in the stated principal amount of \$200,000,000; however, the initial principal amount drawn down was \$65,235,000. The Notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The Series 1997CN-1 Notes (the "Notes"), dated December 1, 1997, are in the stated principal amount of \$65,000,000; however, the initial principal amount drawn down was \$47,755,000. The Notes bear interest, payable on the first Thursday of each succeeding month with respect to the principal amount drawn by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of notes issued and outstanding as of June 30, 1999, and June 30, 1998.

NOTES ISSUED			NOTES OUTSTANDING		
(Thousands)			(Thousands)		
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>06/30/99</u>	<u>06/30/98</u>
<u>SINGLE FAMILY MORTGAGE NOTES</u>					
1997CN-1	12/3/98	\$65,000	4.397	\$ -0-	\$47,755
1999CN-1	4/13/2000	\$200,000	4.369	\$65,235	-0-
		<u>\$265,000</u>		<u>\$65,235</u>	<u>\$47,755</u>

NOTE 5. EQUITY

Retained earnings reserved for the Mortgage Finance Program Bonds represent the equity that is unavailable for transfer to the operating group from the other funds established under the 1974 Bond Resolution.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

The \$2,500,000 shown as contributed capital on the balance sheet is an appropriation by the State of Tennessee for the Homebuyers Revolving Loan Program, a pilot demonstration program to fund low interest mortgages. Earnings from the Homebuyers Revolving Loan Program are reserved for use in the Homebuyers Revolving Loan Program.

The Reserve for the HOUSE Program reflects legislation of the State of Tennessee, effective July 1, 1988, which established the Assets Fund, the Housing Program Fund, and the Housing Program Reserve Fund. This legislation restricts to specific uses all agency funds that are not necessary to support the bond and note obligations and which can be withdrawn from the specific funds of the various bond resolutions as provided under the resolutions. These uses include supporting the rental rehabilitation program, construction loans, grants to local governments and nonprofit organizations, and agency operating expenses.

Initially an amount of \$49,018,410 was transferred on the agency's accounting records to the Assets Fund from the General Fund of the Mortgage Finance Program Group. In addition to the monies provided by the agency, TCA Section 13-23-402 allocates a portion of the real estate transfer taxes and the mortgage taxes levied by the State to the Housing Program Fund.

On May 31, 1997, the General Assembly adopted House Bill 1804/Senate Bill 1943 and on June 19, 1997, the Governor signed the bill into law as Chapter 537 of the Public Acts of 1997 (the "Amendments"). The Amendments modify the Tennessee Housing Development Agency Act by authorizing a transfer of up to \$88,000,000 from the Agency to the State of Tennessee General Fund, at June 30, 1998. Further, the Amendments provide for replenishing the Agency's Assets Fund, beginning July 1, 1998, from all tax revenues received by the Agency in excess of \$10,000,000 each fiscal year until the balance of the Assets Fund once again reaches \$50,000,000.

In addition to the Amendments, the General Assembly adopted and the Governor signed into law the general appropriation act for the State of Tennessee for the year ending June 30, 1998, as Chapter 552 of the Public Acts of 1997 (the "Appropriations Act"). On December 9, 1997, it was determined that \$45,000,000 would be restored to the Agency under the provisions of the Appropriations Act. Thus the total transfer from the Agency to the State of Tennessee General Fund on June 30, 1998, was \$43,000,000. Public Chapter 411, enacted in connection with the adoption of the budget for the State of Tennessee for fiscal year 1999 – 2000, amends the Appropriations Act to redirect, to the State General Fund for one year beginning July 1, 1999, all tax revenues previously directed by the act to the agency.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997 were \$255,198, \$144,649, and \$276,668. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated \$750,000 of unreserved retained earnings as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. ACCOUNTING CHANGE

During the year ended June 30, 1998, the agency implemented GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires reporting certain investments with a remaining maturity of more than one year at the time of purchase at fair value. Changes in the fair value of investments (unrealized gains and losses) are recognized as revenue in the operating statement and are not separated from realized gains and losses. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning retained earnings. It was not practical to restate prior periods since not all information necessary to conform to this accounting change was available.

NOTE 11. SUBSEQUENT EVENTS

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds and notes as indicated below:

July 1, 1999	74 Resolution	\$20,505,000
	85 Resolution	<u>\$66,056,799</u>
	Total	<u>\$86,561,799</u>
August 12, 1999	1999 CN-1	<u>\$27,225,000</u>
September 1, 1999	74 Resolution	<u>\$ 3,845,000</u>
September 9, 1999	1999 CN-1	<u>\$38,010,000</u>
September 10, 1999	85 Resolution	<u>\$14,420,000</u>

- b. Homeownership Program Bonds, Issue 1998-3C, were remarketed October 20, 1999. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
1998-3C	7/1/2001 – 7/1/2013	\$9,325	4.30 to 5.50	1/1/2020	\$ 8,000	6.00
				1/1/2025	8,545	6.125
				1/1/2031	14,130	6.15
TOTAL		<u>\$9,325</u>			<u>\$30,675</u>	

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

- c. Homeownership Program Bonds, Issues 1999-2 and 1999-3, were sold July 29, 1999 and October 20, 1999, respectively. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>
1999-2AB	7/1/2001 - 7/1/2014	\$25,500	4.25 to 5.45	7/1/2018	\$ 11,625	5.60
				7/1/2020	7,670	5.50
				7/1/2025	20,985	5.65
				7/1/2031	34,220	5.70
1999-2C				8/15/2000	50,000	3.57
1999-3	7/1/2001 - 7/1/2013	25,630	4.30 to 5.50	1/1/2020	22,025	6.00
				1/1/2025	23,495	6.125
				1/1/2031	38,850	6.15
TOTAL		<u>\$51,130</u>			<u>\$208,870</u>	

NOTE 12. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF INDEPENDENT AUDITOR'S REPORT

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

January 1, 2000	74 Resolution	\$ 9,820,000
	85 Resolution	<u>\$37,175,152</u>
	Total	<u>\$46,995,152</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 DISCLOSURES

The “Year 2000 Issue” (Y2K) arises because most computer software programs allocate two digits to the data field for “year” on the assumption that the first two digits will be “19”. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact both the ability to enter data into the computer programs and the ability of such programs to correctly process data. Y2K affects the computer applications of the Agency and its vendors, servicers, originating agents, investment providers and bond trustees.

The Agency completed its assessment of the impact of Y2K on its computer application systems, and their supporting infrastructure. The Agency identified five mission-critical application systems, one critical application system, and the Agency’s Local Area Network (LAN) as systems essential to conducting operations. The Agency is in the process of assessing the Y2K effect on other equipment. The Agency defined mission-critical computer systems as those for which there are no reliable manual alternatives and for which failure to be in Y2K compliance would prevent the Agency from fulfilling its mission. Critical systems were defined as those for which there are manual alternatives, but the Agency would unlikely be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required.

The Agency is responsible for additions to and maintenance of one of its mission-critical application systems. Validation/testing of this mission-critical application system for Y2K compliance is complete. Validation/testing was accomplished by utilizing the current production database, then adding and modifying data through all system functions using dates within the range of years 1999 through 2050.

Private vendors are responsible for maintaining the remaining four mission-critical application systems and the one critical application system of the Agency. The Agency is currently in the process of validating and testing these systems. The validation/testing stage is when the Agency validates and tests the changes made during the conversion process. Vendors who are maintaining the software for each of these five systems have provided certifications that their software is Y2K compliant.

The Agency’s LAN provides the supporting computer system infrastructure upon which the Agency application systems reside and are processed. The LAN has multiple hardware and software components which include server, workstations, and network operating system. The LAN and its components are in the validation/testing stage.

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be year 2000 compliant.

The Agency’s Y2K initiatives have not resulted in the commitment of significant financial resources as of the end of the Agency’s reporting period.

The Agency is soliciting information from other organizations whose Y2K compliance could affect the Agency regarding the status of their assessment, remediation, and testing of their computer applications. Of the organizations who have responded to date, all expect to achieve compliance in a manner that will not have a materially negative effect on the Agency’s operations or financial status, although no assurances can be given that circumstances will not change. The Agency does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a material negative impact on the Agency’s operations or financial status.

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TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998
(Expressed in Thousands)

	1999					1998				
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS										
Current assets:										
Cash and cash equivalents	\$ 53,930	\$ 47,945	\$ 95,819	\$ 65,469	\$ 263,163	\$ 33,845	\$ 42,326	\$ 88,336	\$ 47,871	\$ 212,378
Short-term investments	-	19,690	125,904	-	145,594	-	40,084	161,289	-	201,373
Receivables:										
Accounts	1,683	4,853	6,926	-	13,462	1,493	3,607	4,822	-	9,922
Interest	332	7,521	10,664	-	18,517	464	7,551	13,894	173	22,082
First mortgage loans	292	10,632	12,921	-	23,845	331	10,433	13,024	-	23,788
Due from other funds	-	61	1	-	62	-	-	-	-	-
Total current assets	56,237	90,702	252,235	65,469	464,643	36,133	104,001	281,365	48,044	469,543
Other assets:										
Long-term investments	14,302	181,509	236,350	-	432,161	23,166	143,710	281,658	-	448,534
First mortgage loans receivable	2,765	401,940	807,343	-	1,212,048	3,295	432,952	743,191	-	1,179,438
Deferred charges	10	555	2,221	-	2,786	4	622	2,099	-	2,725
Other receivables	-	-	21	-	21	-	-	23	-	23
Total other assets	17,077	584,004	1,045,935	-	1,647,016	26,465	577,284	1,026,971	-	1,630,720
Fixed assets:										
Office furniture and fixtures	498	-	-	-	498	570	-	-	-	570
Less: accumulated depreciation	(388)	-	-	-	(388)	(410)	-	-	-	(410)
Total fixed assets	110	-	-	-	110	160	-	-	-	160
Total assets	\$ 73,424	\$ 674,706	\$ 1,298,170	\$ 65,469	\$ 2,111,769	\$ 62,758	\$ 681,285	\$ 1,308,336	\$ 48,044	\$ 2,100,423
LIABILITIES AND EQUITY										
Liabilities:										
Current liabilities:										
Warrants payable	\$ 1,225	\$ -	\$ -	\$ -	\$ 1,225	\$ 1,136	\$ -	\$ -	\$ -	\$ 1,136
Checks payable	-	-	10,670	-	10,670	-	-	2,827	-	2,827
Accounts payable and accruals	2,669	992	4,674	-	8,335	3,039	908	2,969	-	6,916
Due to primary government	37	-	-	-	37	-	-	-	-	-
Interest payable	-	16,538	26,181	164	42,883	-	17,440	28,279	155	45,874
Escrow deposits payable	116	16,961	-	-	17,077	75	16,374	8	-	16,457
Prepayments on mortgage loans	-	398	966	-	1,364	-	397	901	-	1,298
Notes payable	-	-	-	65,235	65,235	-	-	-	47,755	47,755
Deferred revenue	206	62	560	-	828	492	20	780	-	1,292
Due to other funds	62	-	-	-	62	-	-	-	-	-
Bonds payable	-	36,120	163,739	-	199,859	-	19,505	221,410	-	240,915
Total current liabilities	4,315	71,071	206,790	65,399	347,575	4,742	54,644	257,174	47,910	364,470
Noncurrent liabilities:										
Bonds payable	-	509,335	940,349	-	1,449,684	-	555,590	880,980	-	1,436,570
Less: Unamortized bond discount	-	(2,843)	(6,601)	-	(9,444)	-	(3,178)	(6,625)	-	(9,803)
Unamortized bond refunding costs	-	(290)	(4,951)	-	(5,241)	-	(177)	(4,550)	-	(4,727)
Total noncurrent liabilities	-	506,202	928,797	-	1,434,999	-	552,235	869,805	-	1,422,040
Total liabilities	4,315	577,273	1,135,587	65,399	1,782,574	4,742	606,879	1,126,979	47,910	1,786,510
Equity:										
Contributed capital	2,500	-	-	-	2,500	2,500	-	-	-	2,500
Retained earnings:										
Reserved - HOUSE Program	36,457	-	-	-	36,457	28,813	-	-	-	28,813
Reserved - Mortgage Finance Program Bonds	-	34,320	-	-	34,320	-	33,399	-	-	33,399
Reserved - Homebuyers Revolving Loan Program	316	-	-	-	316	240	-	-	-	240
Unreserved	29,836	63,113	162,583	70	255,602	26,463	41,007	181,357	134	248,961
Total retained earnings	66,609	97,433	162,583	70	326,695	55,516	74,406	181,357	134	311,413
Total equity	69,109	97,433	162,583	70	329,195	58,016	74,406	181,357	134	313,913
Total liabilities and equity	\$ 73,424	\$ 674,706	\$ 1,298,170	\$ 65,469	\$ 2,111,769	\$ 62,758	\$ 681,285	\$ 1,308,336	\$ 48,044	\$ 2,100,423

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998
(Expressed in Thousands)

	1999					1998				
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES										
Mortgage interest income	\$ 199	\$ 31,632	\$ 57,475	\$ -	\$ 89,306	\$ 239	\$ 34,111	\$ 60,861	\$ -	\$ 95,211
Investment income:										
Interest	3,866	11,794	18,603	1	34,264	5,743	11,296	28,993	1,324	47,356
Net increase (decrease) in the fair value of investments	(1,064)	(4,404)	(2,833)	1,653	(6,648)	1,357	3,657	14,913	-	19,927
Fees and other income	843	138	-	-	981	791	133	2	-	926
Total operating revenues	3,844	39,160	73,245	1,654	117,903	8,130	49,197	104,769	1,324	163,420
OPERATING EXPENSES										
Salaries and benefits	2,988	-	-	-	2,988	3,030	-	-	-	3,030
Contractual services	536	-	-	-	536	666	-	-	-	666
Materials and supplies	80	-	-	-	80	72	-	-	-	72
Rentals and insurance	227	-	-	-	227	298	-	-	-	298
Other administrative expenses	34	-	-	-	34	121	-	-	-	121
Other program expenses	-	268	364	1	633	14	245	152	-	411
Interest expense	-	33,792	64,412	1,715	99,919	-	35,549	69,266	1,190	106,005
Mortgage service fees	3	1,437	2,774	-	4,214	4	1,571	2,816	-	4,391
Issuance costs	-	39	134	35	208	-	41	234	68	343
Depreciation	74	-	-	-	74	66	-	-	-	66
Total operating expenses	3,942	35,536	67,684	1,751	108,913	4,271	37,406	72,468	1,258	115,403
Operating income (loss)	(98)	3,624	5,561	(97)	8,990	3,859	11,791	32,301	66	48,017
NONOPERATING REVENUES (EXPENSES)										
Federal grants revenue	39,208	-	-	-	39,208	42,728	-	-	-	42,728
Interdepartmental tax revenue	18,585	-	-	-	18,585	16,277	-	-	-	16,277
Federal grants expenses	(39,208)	-	-	-	(39,208)	(42,728)	-	-	-	(42,728)
Local grants expenses	(7,585)	-	(4,013)	-	(11,598)	(7,615)	-	-	-	(7,615)
Total nonoperating revenues (expenses)	11,000	-	(4,013)	-	6,987	8,662	-	-	-	8,662
Income (loss) before transfer and extraordinary loss	10,902	3,624	1,548	(97)	15,977	12,521	11,791	32,301	66	56,679
Transfer (to) from other funds	191	19,442	(19,666)	33	-	200	(268)	-	68	-
Operating transfer to primary government	-	-	-	-	-	(43,000)	-	-	-	(43,000)
Income (loss) before extraordinary loss	11,093	23,066	(18,118)	(64)	15,977	(30,279)	11,523	32,301	134	13,679
Extraordinary loss on early retirement of debt	-	(39)	(656)	-	(695)	-	(4)	(115)	-	(119)
Net income (loss)	11,093	23,027	(18,774)	(64)	15,282	(30,279)	11,519	32,186	134	13,560
Retained earnings, July 1	55,516	74,406	181,357	134	311,413	85,467	63,034	131,235	-	279,736
Cumulative effect of a change in accounting principle	-	-	-	-	-	328	(147)	17,936	-	18,117
Retained earnings, July 1, as restated	55,516	74,406	181,357	134	311,413	85,795	62,887	149,171	-	297,853
Retained earnings, June 30	\$ 66,609	\$ 97,433	\$ 162,583	\$ 70	\$ 326,695	\$ 55,516	\$ 74,406	\$ 181,357	\$ 134	\$ 311,413

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 1999, AND JUNE 30, 1998
(Expressed in Thousands)

	1999					1998				
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:										
Operating income (loss)	\$ (98)	\$ 3,624	\$ 5,561	\$ (97)	\$ 8,990	\$ 3,859	\$ 11,791	\$ 32,301	\$ 66	\$ 48,017
Adjustments to reconcile operating income to net cash provided (used) by operating activities:										
Depreciation and amortization	74	(16)	11	-	69	79	39	58	-	176
Changes in assets and liabilities:										
(Increase) decrease in accounts receivable	(190)	(1,246)	(2,104)	-	(3,540)	(91)	(2,261)	(2,085)	-	(4,437)
(Increase) decrease in interest receivable	4	160	553	-	717	3	195	807	-	1,005
(Increase) decrease in first mortgage loans receivable	569	30,813	(64,049)	-	(32,667)	527	44,224	2,546	-	47,297
(Increase) decrease in due from federal government	-	-	-	-	-	108	-	-	-	108
(Increase) decrease in deferred charges	(6)	-	(103)	-	(109)	5	-	-	-	5
(Increase) decrease in other receivables	-	-	2	-	2	-	-	1	-	1
(Increase) decrease in interfund receivables	-	(61)	(1)	-	(62)	214	-	-	-	214
Increase (decrease) in interfund payables	62	-	-	-	62	-	(214)	-	-	(214)
Increase (decrease) in warrants payable	89	-	-	-	89	(598)	-	-	-	(598)
Increase (decrease) in accounts payable	(329)	672	1,762	-	2,105	436	694	(414)	-	716
Increase (decrease) in due to primary government	(455)	-	-	-	(455)	(35)	-	-	-	(35)
Increase (decrease) in deferred revenue	206	97	(97)	-	206	492	-	-	-	492
Investment income included as operating revenue	(2,802)	(7,390)	(15,770)	(1,654)	(27,616)	(7,100)	(14,953)	(43,906)	(1,324)	(67,283)
Interest expense included as operating expense	-	33,792	64,412	1,715	99,919	-	35,549	69,266	1,190	106,005
Total adjustments	(2,778)	56,821	(15,384)	61	38,720	(5,960)	63,273	26,273	(134)	83,452
Net cash provided (used) by operating activities	(2,876)	60,445	(9,823)	(36)	47,710	(2,101)	75,064	58,574	(68)	131,469
Cash flows from non-capital financing activities:										
Operating grants received	39,208	-	-	-	39,208	42,728	-	-	-	42,728
Operating transfers in (out)	191	19,442	(19,666)	33	-	200	(268)	-	68	-
Operating transfer to primary government	-	-	-	-	-	(43,000)	-	-	-	(43,000)
Taxes received	18,585	-	-	-	18,585	16,277	-	-	-	16,277
Negative cash balance implicitly financed	-	-	7,843	-	7,843	-	-	903	-	903
Proceeds from sale of bonds	-	-	313,407	-	313,407	-	-	304,547	-	304,547
Proceeds from issuance of notes	-	-	-	82,480	82,480	-	-	-	47,755	47,755
Operating grants paid	(46,793)	-	(4,013)	-	(50,806)	(50,343)	-	-	-	(50,343)
Cost of issuance paid	-	-	(385)	(31)	(416)	-	-	(481)	(68)	(549)
Principal payments	-	(29,640)	(319,994)	(65,000)	(414,634)	-	(25,660)	(346,190)	-	(371,850)
Interest paid	-	(34,483)	(59,026)	(1,675)	(95,184)	-	(36,158)	(71,366)	(967)	(108,491)
Net cash provided (used) by non-capital financing activities	11,191	(44,681)	(81,834)	15,807	(99,517)	(34,138)	(62,086)	(112,587)	46,788	(162,023)
Cash flows from capital and related financing activities:										
Acquisition of fixed assets	(24)	-	-	-	(24)	(109)	-	-	-	(109)
Net cash used by capital and related financing activities	(24)	-	-	-	(24)	(109)	-	-	-	(109)
Cash flows from investing activities:										
Proceeds from sales and maturities of investments	7,800	246,482	570,030	-	824,312	30,683	243,920	865,301	-	1,139,904
Purchases of investments	-	(268,710)	(491,920)	-	(760,630)	-	(254,802)	(872,453)	-	(1,127,255)
Investment interest received	3,994	12,083	21,030	1,827	38,934	6,212	10,966	29,980	1,151	48,309
Net cash provided (used) by investing activities	11,794	(10,145)	99,140	1,827	102,616	36,895	84	22,828	1,151	60,958
Net Increase (decrease) in cash and cash equivalents	20,085	5,619	7,483	17,598	50,785	547	13,062	(31,185)	47,871	30,295
Cash and cash equivalents, July 1	33,845	42,326	88,336	47,871	212,378	33,298	29,264	119,521	-	182,083
Cash and cash equivalents, June 30	\$ 53,930	\$ 47,945	\$ 95,819	\$ 65,469	\$ 263,163	\$ 33,845	\$ 42,326	\$ 88,336	\$ 47,871	\$ 212,378
Noncash investing, capital, and financing activities:										
Disposition of fixed assets	\$ 96	\$ -	\$ -	\$ -	\$ 96	\$ 39	\$ -	\$ -	\$ -	\$ 39
Accretion of deep discount bonds	-	-	6,693	-	6,693	-	-	5,365	-	5,365
Total noncash investing, capital, and financing activities	\$ 96	\$ -	\$ 6,693	\$ -	\$ 6,789	\$ 39	\$ -	\$ 5,365	\$ -	\$ 5,404

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEET - OPERATING GROUP
JUNE 30, 1999
(Expressed in Thousands)

	Assets Fund	Housing Program Fund	Operating Group Total
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 11,533	\$ 42,397	\$ 53,930
Receivables:			
Accounts	16	1,667	1,683
Interest	332	-	332
First mortgage loans	227	65	292
Due from other funds	8,268	-	8,268
Total current assets	<u>20,376</u>	<u>44,129</u>	<u>64,505</u>
Other assets:			
Long-term investments	14,302	-	14,302
First mortgage loans receivable	1,779	986	2,765
Deferred charges	-	10	10
Total other assets	<u>16,081</u>	<u>996</u>	<u>17,077</u>
Fixed assets:			
Office furniture and fixtures	-	498	498
Less: accumulated depreciation	-	(388)	(388)
Total fixed assets	<u>-</u>	<u>110</u>	<u>110</u>
Total assets	<u>\$ 36,457</u>	<u>\$ 45,235</u>	<u>\$ 81,692</u>
<u>LIABILITIES AND EQUITY</u>			
Liabilities:			
Warrants payable	\$ -	\$ 1,225	\$ 1,225
Accounts payable and accruals	-	2,669	2,669
Due to primary government	-	37	37
Deferred revenue	-	206	206
Escrow deposits payable	-	116	116
Due to other funds	-	8,330	8,330
Total liabilities	<u>-</u>	<u>12,583</u>	<u>12,583</u>
Equity:			
Contributed capital	-	2,500	2,500
Retained earnings:			
Reserved - HOUSE Program	36,457	-	36,457
Reserved - Homebuyers Revolving Loan Program	-	316	316
Unreserved	-	29,836	29,836
Total retained earnings	<u>36,457</u>	<u>30,152</u>	<u>66,609</u>
Total equity	<u>36,457</u>	<u>32,652</u>	<u>69,109</u>
Total liabilities and equity	<u>\$ 36,457</u>	<u>\$ 45,235</u>	<u>\$ 81,692</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEET - MORTGAGE FINANCE PROGRAM
JUNE 30, 1999
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 45,844	\$ 2,439	\$ 48,283	\$ 245	\$ 48,528
Short-term investments	17,295	1,300	18,595	1,095	19,690
Receivables:					
Accounts	4,720	133	4,853	-	4,853
Interest	6,322	967	7,289	232	7,521
First mortgage loans	9,999	633	10,632	-	10,632
Due from other funds	-	62	62	-	62
Total current assets	84,180	5,534	89,714	1,572	91,286
Other assets:					
Long-term investments	124,057	43,006	167,063	14,446	181,509
First mortgage loans receivable	385,762	16,178	401,940	-	401,940
Deferred charges	555	-	555	-	555
Total other assets	510,374	59,184	569,558	14,446	584,004
Total assets	\$ 594,554	\$ 64,718	\$ 659,272	\$ 16,018	\$ 675,290
LIABILITIES AND EQUITY					
Liabilities:					
Current liabilities:					
Checks payable	\$ -	\$ 583	\$ 583	\$ -	\$ 583
Accounts payable and accruals	981	11	992	-	992
Interest payable	16,538	-	16,538	-	16,538
Escrow deposits payable	-	404	404	16,557	16,961
Due to other funds	1	-	1	-	1
Prepayments on mortgage loans	374	24	398	-	398
Deferred revenue	18	44	62	-	62
Bonds payable	36,120	-	36,120	-	36,120
Total current liabilities	54,032	1,066	55,098	16,557	71,655
Noncurrent liabilities:					
Bonds payable	509,335	-	509,335	-	509,335
Less: Unamortized bond discount	(2,843)	-	(2,843)	-	(2,843)
Unamortized bond refunding costs	(290)	-	(290)	-	(290)
Total noncurrent liabilities	506,202	-	506,202	-	506,202
Total liabilities	560,234	1,066	561,300	16,557	577,857
Equity:					
Retained earnings:					
Reserved - Mortgage Finance Program Bonds	34,320	-	34,320	-	34,320
Unreserved	-	63,652	63,652	(539)	63,113
Total retained earnings	34,320	63,652	97,972	(539)	97,433
Total equity	34,320	63,652	97,972	(539)	97,433
Total liabilities and equity	\$ 594,554	\$ 64,718	\$ 659,272	\$ 16,018	\$ 675,290

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.

** The Escrow Funds can only be used for escrow payments.